

**TESTIMONY OF**  
**UIL HOLDINGS CORPORATION**  
**Before the Planning and Development Committee**  
**On**  
**RAISED HOUSE BILL 5406 – AN ACT ESTABLISHING A TASK FORCE TO STUDY**  
**BARRIERS TO THE FORMATION OF MUNICIPAL UTILITIES**  
**Legislative Office Building**  
**March 9, 2012**

Good afternoon, Senator Cassano, Representative Gentile and members of the Planning & Development Committee. My name is Michael Coretto and I am the Associate Vice President – Regulatory Affairs for UIL Holdings Corporation (UIL). On behalf of The Southern Connecticut Gas Company, Connecticut Natural Gas Corporation and The United Illuminating Company, I am here today to offer comments regarding **Raised Bill 5406, AN ACT ESTABLISHING A TASK FORCE TO STUDY BARRIERS TO THE FORMATION OF MUNICIPAL UTILITIES.**

As stated, the purpose of this bill is to study legal barriers to the formation of municipal utilities. UIL believes that the existing process set forth in chapter 101 of the Connecticut General Statutes adequately sets forth the means and procedures by which a municipality is able to establish and operate a municipal utility. I refer you to OLR Research Reports 2011-R-0340 and 2012-R-0001 for additional discussion of the statutory process. Any barriers to the formation of municipal utilities are not necessarily legal in nature. In our opinion, there are practical and economic realities about which UIL would like to provide brief comments. Municipalization means that

a municipality would be engaged in the business of power supply and delivery, and would be responsible to ensure safe, reliable, and reasonably priced electricity for its customers. This obligation is expensive, complex, impacts other State public policies, and has organized labor implications.

**Acquisition is expensive and complex.**

Municipalization is expensive at the point of initial acquisition and has significant ongoing costs required for infrastructure maintenance, repair and upgrade.

Municipalities would need to raise billions of dollars, in aggregate, to pay fair market value to acquire electric distribution company systems. This would burden, or overburden, the available bonding authority of municipalities and would mean tax increases to the resident-customers.

Acquiring an electric distribution system is complex. Electric utility circuits do not follow municipal boundaries, and existing substations can serve customers in more than one municipality. The costs of reconfiguring the company's electric system in order to accommodate town boundaries would have to be considered in the acquisition costs, along with other costs, such as stranded costs, that may occur as part of the takeover of the system. Additionally, municipalities would need to be prepared to take on additional costs so the municipal system could provide capabilities presently provided by the electric company that cannot be separated and sold to municipalities, such as meter reading and customer billing.

In sum, municipalities would have to be operationally and financially responsible to manage all aspects of a complex overhead and underground transmission and

distribution system. These include, for example, inspections to ensure reliability, testing and maintenance of relay protection systems, line clearance, and pole maintenance to name a few. The municipalities would also have to address system performance issues (such as voltage concerns or system overloads) as well as manage the system in concert with overall regional reliability concerns and requirements.

#### **Ongoing Costs are Significant.**

Electric distribution companies have large transmission and distribution capital programs associated with the requirement to plan, construct and pay for large-scale infrastructure replacement, upgrades and extension needed to maintain system reliability. In addition to financing these infrastructure programs, municipalities would also have to have the appropriate skilled resources to manage them and coordinate the planning and work on the system with other utilities, municipalities or region system operators and cooperate with other utilities to finance the design and construction of the system.

#### **Potential Loss of Tax Revenue.**

Shareholder-owned electric companies pay millions of dollars in state taxes and in property taxes associated with real and personal property located in the municipalities. If a municipality purchases a distribution company's system, this may result in a loss of some or all tax revenue to both the state and the municipality. Any loss of revenue would be permanent, and any gaps in revenues to meet state and local budget requirements would have to be addressed if the facilities are sold to municipalities.

**Other complexities.**

It is not clear whether the Bill's consideration of barriers to municipalization is intended to include transmission assets. Transfer of transmission assets is subject to federal jurisdiction as part of the interconnected interstate electric grid, and planning of the grid and infrastructure upgrade is a federally supervised process. Separating the transmission system into small pieces owned by municipalities complicates the already complex task of maintaining system reliability. Transmission operators are subject to a host of compliance requirements including the North American Electric Reliability Corporation (NERC) standards relating to Critical Infrastructure Protection (CIP) and Emergency Preparedness and Operations (EOP). There are also heightened cyber security requirements that municipalities would have to address. Municipalities operating transmission assets would be subject to these obligations, and would need to incur ongoing costs of compliance with existing and future standards, federal reporting and related commitments.

**State Public Policies.**

Municipalization impacts a number of State public policies, including promoting retail choice. Retail choice has been the public policy of the State since the enactment of Public Act 98-28. Under current law, municipalities are not required to provide retail choice to their customers. Additionally, State public policy promoting energy efficiency, including weatherization of homes, and renewable generation is largely paid for by electric distribution company customers and is a component of the electric distribution companies' rates. Municipal utility customers have not historically paid

for these costs and currently do so at lower rates. Funding for energy efficiency and renewable generation programs would likely decrease under municipalization.

Municipalities will also be required to perform customer service functions - such as metering, billing, collections and overall account management. These functions would require a significant initial investment and ongoing cost in maintaining and operating these technologies such as billing systems, metering infrastructure, outage management and supervisory control and data acquisition systems (SCADA). The municipality would also be required to hire office and field resources to operate and maintain these systems in addition to meeting all regulatory, market and customer expectations. The municipality would also be required to hire resources to perform bill print, payment services including web access for customers to manage their energy usage and account information. Finally, the municipality would require the expertise to procure power and function in the ISO-NE regional marketplace.

**Shareholder-owned electric companies are highly regulated by the Public Utilities Regulatory Authority.**

Electric distribution companies are comprehensively reviewed and regulated by a state regulatory agency pursuant to Connecticut statutory requirements. This means that there is ongoing oversight and review of all aspects of utility operations. Procedures and processes are in place to foster safe, adequate and reliable services (including important customer service procedures). For example, termination of service by electric distribution companies must comply with state law.

**Labor.**

Finally, municipalization has labor implications that require consideration. If utility workers lose their jobs as a result of the sale of facilities to municipalities this could increase unemployment in the State. Union employees, whose employment by electric distribution companies is governed by collective bargaining agreements, could not be compelled to work for the municipalities, and at a minimum would expect to enter into new agreements at least as favorable as existing agreements. If a task force were established, which we believe is unnecessary given the current state law on municipalization, the task force should consider including union labor representation.

In summary, in our opinion existing law adequately sets forth the means by which a municipality is able to establish and operate a municipal utility. There are practical complexities that municipalities would need to think through carefully if the municipality considered making the very substantial expenditure and equally substantial ongoing and future commitment to become engaged in the business of power supply and delivery. These complexities, however, are unrelated to "legal" issues.

Thank you for the opportunity to appear before you today. I will try to answer any questions you may have.